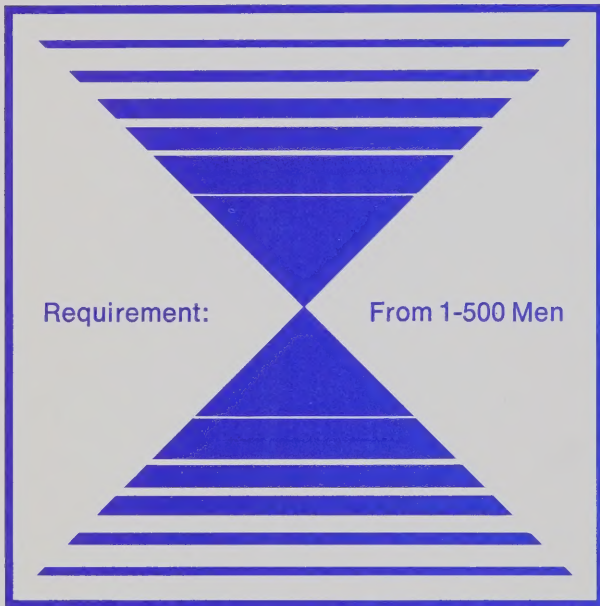

**MTS International
Services Inc.**





MTS

Is a Canadian company listed on the Toronto Stock Exchange. It was formed in 1965 to serve industry's technical and professional personnel needs.

MTS

Utilizes the surplus manpower in one country to supplement acute shortages in another.

MTS DOES

Advertising, Interviewing, Selecting, Testing, References, Moving, Security Clearance, Visas, Working Permits.

MTS

Is a leader in one of the world's largest industries. The people service industry now has annual sales of 1.5 billion dollars.

MTS

Will provide the services of qualified, reliable personnel to work on your premises or ours, for any period of time. We place personnel on your staff but not on your payroll.

MTS

Serves your permanent or temporary people needs. You receive qualified, reliable people with speed — convenience — economy.

MTS International Services Inc.

Annual Report Year Ended July 29, 1972

Board of Directors

R. S. Summerfeldt	T. A. Spencer
D. G. Badger	D. J. Ricci
C. L. Hagedorn	R. L. Smitten

Officers

Chief Operating Officer and Executive Chairman of the Board

R. S. Summerfeldt

Executive Vice President

T. A. Spencer

Secretary

T. J. O'Neill

Head Office

170 University Avenue, Suite 500, Toronto, Ontario

Transfer Agents

Crown Trust Company,
302 Bay Street, Toronto, Ontario

Crown Trust Company,
393 St. James Street West, Montreal, Quebec.

Registrar & Transfer Company,
140 Cedar Street, New York, N.Y. 10006.

Registrar & Transfer Company,
15 Exchange Place, Jersey City, N.J. 07302.

Auditors

Johnson, Stewart, Bourne, Brown & Co.,
335 Bay Street, Suite 810, Toronto, Ontario.

General Counsel

Spencer, Romberg, Kassirer, Barkin & Esbin,
21 Dundas Square, Toronto, Ontario.

Special Counsel

Davies, Ward & Beck,
110 Yonge Street, Toronto, Ontario

MTS INTERNATIONAL

Report to Shareholders

There are many differences between MTS as it was at year end July 29, 1972 and the Company as it functions today:

- We are much more streamlined, with a tightly-drawn internal structure and stringent cost controls
- We have restricted our activities, operating **ONLY** in personnel supply areas where we have an established growth record
- All 12 of MTS's branches are *profit oriented* with experienced management teams in charge

In short, disappointing financial results for fiscal 1972 must be measured against two factors. First, the 12-months under review marked the final clean-out for a difficult period in your Company's operations. Secondly, many new positives have since emerged — with the promise of short and long term benefits for shareholders.

To go further, our six month statement for fiscal 1973 will be appearing shortly, and I am confident these figures will make more pleasant reading.

There is no question in my mind that MTS has not only survived the various negatives which were dominant during 1971 and 1972, but I have no hesitation in predicting that the Company will continue to show a recovery pattern in the months and years ahead. This can be traced not only to new dedication of resources and personnel — but also to a *rationale* which will provide MTS International with the buoyancy that has been lacking in recent years. Basically, MTS is back to fundamentals.

We have divested ourselves of non-related activities — to concentrate, once again, on the supplying of skilled and professional personnel to customers in all parts of the world.

This is the industry where MTS achieved substantial success during the 1960's, becoming the largest international operation of its kind. As a People-Service Company, MTS also had impressive profits, and these were only curtailed when the Company diversified its interests, and its managerial talents, into unrelated areas.

It should be emphasized that MTS's personnel operations remained essentially strong during fiscal 1971 and 1972, and in the opinion of your directors, the growth potential within this industry has in no way diminished. As a result, we look forward to vigorous expansion in the years immediately ahead, with the prospect of sharply-improved earnings.

However, I can also assure shareholders that any expansion moves undertaken by the Company will be carefully-analyzed and no financial commitments will be made that will interrupt the Company's present profit pattern.

At present we have four unit-operations in Canada; one in the United States; two in France; two in Germany; one in Belgium; one in South Africa; one in England. With only three exceptions, these branch operations are performing satisfactorily, and we expect all 12 to be profitable in the third quarter.

With this solid core (and with various negative aspects removed) your Directors envision a 20% increase in revenue during fiscal 1973 to approximately \$6 million. For the same period we are projecting pre-tax earnings of about \$250,000 or 12.5c — which appears reasonable based on new momentum that has been generated.

In closing, a short word of apology for our lateness in submitting this annual report. The delay was caused by the complexity of finalizing statements from seven countries. In addition, the disposal of outside interests, particularly Mytolon Chemicals, caused numerous hangover problems. For these assorted reasons your Company was allowed to extend its normal reporting period — with perhaps the compensating factor that shareholders now have a more up-to-date (and more encouraging) picture of the Company's operations.

Evidence of this new impetus can be seen in the pro forma figures which appear in the annual statement. They show that subsequent to the fiscal year end a number of financial improvements took place within the balance sheet. Working capital, for example, was in a deficit position by \$374,689 at July 29, 1972 whereas the pro forma deficit is only \$33,290.

Generally your Company has come through a trying period with its financial resources intact, for which appreciation is due to officials at the Bank of Montreal. We also thank our shareholders, customers and employees for their patience and understanding.

As already noted, our forthcoming six-month statement will indicate that MTS International has now moved into sunnier levels — and, speaking for the Board of Directors, we see better times ahead.

March 5, 1973

Richard Scott Summerfeldt
Executive Chairman

**M.T.S. INTERNATIONAL SERVICES INCORPORATED
AND ITS SUBSIDIARY COMPANIES (Note 1)**

CONSOLIDATED BALANCE SHEET AS AT JULY 29, 1972
(with comparative inception figures as at September 8, 1971 [Note 1.1])

AND

**PRO-FORMA CONSOLIDATED BALANCE SHEET AS AT JULY 29, 1972
AFTER GIVING EFFECT TO THE TRANSACTIONS OUTLINED IN NOTE 6**

ASSETS

<u>CURRENT</u>	<u>1972</u>	<u>1971</u>	<u>Pro-forma 1972</u>
Cash	\$ 102,298	\$ 116,914	\$ 379,798
Accounts receivable — trade	745,307	651,037	745,307
— other	19,497	56,024	19,497
Marcom Group of Companies — at cost (Notes 1.3 and 2.1)	46,201	46,201	—
Mytolon Chemicals Inc. (Note 2.2 and 2.3)	100,000	—	100,000
Income taxes recoverable	8,653	25,138	8,653
Prepaid expenses	11,166	44,739	11,166
Due from director	—	11,857	—
	<u>\$1,033,122</u>	<u>\$ 951,910</u>	<u>\$1,264,421</u>

INVESTMENTS

Modern Technical Services (Michigan) Inc. — at cost (Note 1.11)	\$ —	\$ 535	\$ —
Mytolon Chemicals Limited — at estimated realizable value (Note 2.2 and 2.4)	100,000	105,260	100,000
Promissory Note, Comac Communications Limited (Note 2.1)	—	—	250,000
Debenture, Holdex Group Limited (Note 6.1)	—	—	75,000
Other, at cost	3,500	—	3,500
	<u>\$ 103,500</u>	<u>\$ 105,795</u>	<u>\$ 428,500</u>

FIXED

Cost	\$ 125,531	\$ 132,085	\$ 125,531
Accumulated depreciation	60,088	63,738	60,088
	<u>\$ 65,443</u>	<u>\$ 68,347</u>	<u>\$ 65,443</u>

INTANGIBLES

Excess of cost of subsidiaries acquired during the period over the net tangible assets at date of acquisition	\$ 57,776	\$ —	\$ 57,776
Excess of liabilities over tangible assets at the date of amalgamation (Note 1.2)	291,868	291,868	291,868
	<u>\$ 349,644</u>	<u>\$ 291,868</u>	<u>\$ 349,644</u>
	<u>\$1,551,709</u>	<u>\$1,417,920</u>	<u>\$2,108,008</u>

APPROVED ON BEHALF OF THE BOARD

R. S. SUMMERFELDT, Director

T. A. SPENCER, Director

February 27, 1973.
Toronto, Ontario

LIABILITIES

<u>CURRENT</u>	<u>1972</u>	<u>1971</u>	<u>Pro-forma 1972</u>
Bank indebtedness, secured	\$ 740,047	\$ 281,132	\$ 665,047
Accounts payable and accrued liabilities	509,912	630,155	494,912
Income taxes payable	65,257	72,807	65,257
Current portion of long-term debt	72,495	4,081	72,495
	<u>\$1,387,711</u>	<u>\$ 988,175</u>	<u>\$1,297,711</u>
 <u>LONG-TERM DEBT</u>			
Advances from directors (Note 3.1)	\$ 190,495	\$ 275,263	\$ 72,495
Loan payable (Note 3.3)	36,000	36,000	36,000
Debenture (Note 6.1)	—	—	150,000
	<u>\$ 226,495</u>	<u>\$ 311,263</u>	<u>\$ 258,495</u>
<u>Less:</u> current portion	72,495	4,081	72,495
	<u>\$ 154,000</u>	<u>\$ 307,182</u>	<u>\$ 186,000</u>
 <u>MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES</u>			
Preference shares (Note 4)	\$ 122,500	\$ 122,500	\$ —
Common shares	—	61	—
	<u>\$ 122,500</u>	<u>\$ 122,561</u>	<u>\$ —</u>
 <u>SHAREHOLDERS' EQUITY</u>			
<u>CAPITAL STOCK</u>			
<u>Authorized</u>			
3,000,000 Common shares without par value			
<u>Issued and Fully Paid</u> (Note 5)			
1,687,251 Common shares (1971-1,179,551 shares)			
(pro-forma 2,081,384 shares)	\$ 400,977	\$ 2	\$ 683,977
<u>DEFICIT</u>	(513,479)	—	(59,680)
	<u>(\$ 112,502)</u>	<u>\$ 2</u>	<u>\$ 624,297</u>
	 <u>\$1,551,709</u>	 <u>\$1,417,920</u>	 <u>\$2,108,008</u>

Contingent liabilities, commitments and significant events subsequent to the balance sheet date (Notes 3.2, 3.3, 4, 6 and 8)

This is the consolidated balance sheet referred to in The Auditors' report dated February 27, 1973.

**M.T.S. INTERNATIONAL SERVICES INCORPORATED
AND ITS SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEAR ENDED JULY 29, 1972 (NOTE 1.4)**

REVENUE FROM SERVICES		\$4,857,005
COST OF SERVICES		<u>3,738,245</u>
GROSS PROFIT		\$1,118,760
EXPENSES		
Selling	\$ 469,798	
Administration and general (Note 2.2 and 7.1)	<u>993,919</u>	<u>1,463,717</u>
OPERATING LOSS FROM CONTINUING OPERATIONS, BEFORE INCOME TAXES		\$ 344,957
Provisions for income taxes		<u>18,680</u>
LOSS FROM CONTINUING OPERATIONS, BEFORE THE FOLLOWING CHARGES		\$ 363,637
Provision for loss on advances to a subsidiary which has discontinued operations (Note 1.7)		<u>40,671</u>
LOSS BEFORE EXTRAORDINARY ITEMS		\$ 404,308
Provision for loss of advances to Mytolon Chemicals Limited (Note 2.2)	\$ 122,636	
Gain on sale of interest in Modern Technical Services (Michigan) Inc. (Note 1.11)	(<u>13,465</u>)	<u>109,171</u>
NET LOSS FOR THE YEAR AND DEFICIT AS AT JULY 29, 1972		<u><u>\$ 513,479</u></u>
Loss per share of capital stock based on average shares outstanding of 1,266,049		
OPERATING LOSS		\$ 0.29
Loss from discontinued operations		<u>0.03</u>
LOSS BEFORE EXTRAORDINARY ITEMS		\$ 0.32
Extraordinary losses		<u>0.09</u>
NET LOSS		<u><u>\$ 0.41</u></u>

**M.T.S. INTERNATIONAL SERVICES INCORPORATED
AND ITS SUBSIDIARY COMPANIES**

**CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE PERIOD FROM SEPTEMBER 8, 1971 TO JULY 29, 1972**

SOURCE OF FUNDS

Proceeds of sale of fixed assets	\$ 9,657
Proceeds of sale of investments	14,000
Issue of common shares	400,975
Decrease in investments	<u>1,760</u>
	<u>\$426,392</u>

APPLICATION OF FUNDS

From operations	
Net losses before provision for depreciation of \$20,755 and before gain on sale of Modern Technical Services (Michigan) Inc.	\$506,189
Reduction in long term advances from directors	153,182
Purchase of fixed assets	27,508
Purchase of goodwill	57,776
Purchase of minority interests in common shares	<u>61</u>
	<u>\$744,716</u>
<u>INCREASE IN WORKING CAPITAL DEFICIT</u>	<u>\$318,324</u>
<u>WORKING CAPITAL DEFICIT, SEPTEMBER 8, 1971</u>	<u>\$ 36,265</u>
<u>WORKING CAPITAL DEFICIT, JULY 29, 1972</u>	<u><u>\$354,589</u></u>

AUDITORS' REPORT

To the Shareholders of

M.T.S. International Services Incorporated:

We have examined the consolidated balance sheet and pro-forma balance sheet of M.T.S. International Services Incorporated as at July 29, 1972 and the consolidated statement of operations and deficit and source and application of funds for the year then ended. Our examination of the financial statements of M.T.S. International Services Incorporated and, those subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries except for the new company formed in Belgium as disclosed in Note 1.9 and the new company acquired in United Kingdom as disclosed in Note 1.10. The unaudited accounts for these companies have been included in the consolidation as disclosed in Note 9, although the auditors' reports are not available at this date.

As disclosed in Note 1.7, one of the company's Belgian subsidiaries has discontinued operations. Although, the company has made provision for estimated losses, no information is available at this date as to the ultimate extent of the loss. The accounts of this company have not been audited.

In our opinion, subject to the determination of the ultimate loss, if any, on the accounts of the unaudited inactive Belgian company and the former subsidiary which operated in the United Kingdom as referred to in Note 8.3 and except for the absence of an audit report for certain foreign subsidiaries as set out in the opening paragraph, these consolidated financial statements and the accompanying pro-forma balance sheet, present fairly the financial position of the companies as at July 29, 1972 and the results of their operations, and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles.

JOHNSON, STEWART, BOURNE, BROWN & Co.
Chartered Accountants.

Toronto, Ontario
February 27, 1973

**M.T.S. INTERNATIONAL SERVICES INCORPORATED
AND ITS SUBSIDIARY COMPANIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
JULY 29, 1972**

Principles of Amalgamation, Consolidation and Acquisitions

- Note 1.1:** The company was formed on September 8, 1971 by an amalgamation under the Business Corporation Act (Ontario), of M.T.S. International Services Limited, M.T.S. Holdings Limited and Miroptic Systems Limited.
- Note 1.2:** Pursuant to the amalgamation agreement the company acquired all of the assets and assumed all of the liabilities of the M.T.S. group of companies in exchange for 1,146,756 shares. At the date of amalgamation the liabilities exceeded the tangible assets acquired by \$291,868 and accordingly the common shares issued pursuant to the agreement were recorded at a nominal consideration of one dollar.
- Note 1.3:** Also pursuant to the amalgamation agreement the company acquired all of the assets and assumed all of the liabilities of Miroptic Systems Limited, hereinafter referred to as the Marcom group of companies, in exchange for 32,399 shares. As this group of companies was subsequently sold (Note 2.1), and since by agreement M.T.S. was not permitted the use of Marcom's financial resources including current earnings, the subsidiaries acquired from Miroptic have not been consolidated but have been recorded as an investment and accounted for at cost. Since the consolidated balance sheet of Miroptic recorded an excess of liabilities over tangible assets of \$189,191 at July 31, 1971 (the latest date on which financial information was available) the consideration for the issue of common shares was recorded at a nominal one dollar.
- Note 1.4:** In preparing the opening consolidated balance sheet as at September 8, 1971 the consolidated balance sheet of the M.T.S. group of companies as at July 31, 1971 was assumed to represent fairly the financial position at the date of amalgamation as information as to operating results for the intervening period between August 1 and September 7, 1971 was not available. Consequently, the statement of operations is for the year ended July 29, 1972.
- Note 1.5:** The financial statements include the accounts of the company, and its wholly owned subsidiaries with the exception of the Marcom group of companies and Modern Technical Services N.V.
- Note 1.6:** The unconsolidated operating profit of the Marcom Group for the year ended July 31, 1972 was \$53,588.
- Note 1.7:** Modern Technical Services N.V., a Belgian corporation, discontinued operations during the year. Due to the absence of a financial report we have not been able to consolidate that company's financial information. A provision for the loss of cash advances and contingent liabilities amounting to \$40,671 was considered adequate to settle the financial obligations of the subsidiary.
- Note 1.8:** During the period March 30 to May 24, 1972 the company acquired all of the issued share capital of E.H. Speth & Associates, Inc., a New York corporation, for nominal consideration in return for providing working capital financing. The results of operations of E.H. Speth & Associates, Inc. have been consolidated from December 31, 1971, the end of its previous fiscal period.

**M.T.S. INTERNATIONAL SERVICES INCORPORATED
AND ITS SUBSIDIARY COMPANIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)**

Note 1.9: During the period, the company formed two new operating subsidiaries, MTS Services, S.A., a Belgian corporation, and MTS Services (France) S.A. The results of operations of these two companies have been consolidated from March 1, 1972 and April 19, 1972 the respective dates on which they commenced operations.

Note 1.10: On August 2, 1972 the company acquired all of the outstanding share capital of Modern Technical Services (U.K.) Limited (formerly M.T.S. Computer Services Limited and Universal Computer Services Limited) for nominal consideration. As the company had provided the financing, had actively taken part in the management, and had an option to acquire 51% of the outstanding share capital since March 1, 1972 the results of operations of Modern Technical Services (U.K.) Limited have been consolidated for the period March 1, to July 29, 1972.

Note 1.11: On March 24, 1972 Franteck Investments of Canada Limited, a wholly owned subsidiary, sold its 50% interest in Modern Technical Services (Michigan) Inc. The gain on the sale has been included as an extraordinary item in the statement of operations as follows:

Sale of 500 shares			\$ 30,000
<u>Deduct:</u> Cost of 500 shares	\$	535	
Legal fees		1,000	
Allowance for doubtful collection		<u>15,000</u>	<u>16,535</u>
Gain on sale			<u>\$ 13,465</u>

Investments

Note 2.1: On September 28, 1972 the Marcom group of companies were sold for \$250,000 cash and \$250,000 in 7½% promissory notes, which may be converted at \$2.50 into common shares of Comac Communications Limited. A gain of \$433,799 was realized on this transaction.

Note 2.2: The company, prior to and since amalgamation, has made advances to the Mytolon companies totalling \$614,636 for which it received shares and debt instruments. During the current year the company ceased supporting the Mytolon companies through cash advances.

Of the amounts advanced, \$245,000 was written-off prior to amalgamation and an additional allowance of \$169,636 was recorded during the current year of which \$47,000 is included in administration and general expenses.

Note 2.3: By a series of transactions which commenced prior to July 29, 1972 the company received 599,000 common shares, 56,000 warrants and a \$350,000 series B debenture of Mytolon Chemicals Inc. which in turn by an agreement dated October 31, 1972 have been sold for \$100,000, of which \$65,000 has been received and \$35,000 is due by May 31, 1973.

**M.T.S. INTERNATIONAL SERVICES INCORPORATED
AND ITS SUBSIDIARY COMPANIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)**

Note 2.4: Of the advances to Mytolon Chemicals Limited referred to in Note 2.2, \$250,000 is secured by a first floating charge debenture. A receiver was appointed under this debenture in April 1972 and negotiations are in progress with a prospective purchaser under which, if successful, a \$100,000 debenture and up to \$150,000 in convertible preference shares with warrants of the purchaser will be received by the company in addition to the collection of government grants receivable which are estimated to realize in excess of \$50,000. Collectively the net realizable value from the aforementioned debenture has been estimated at \$100,000.

Long Term Debts

Note 3.1: Advances to and from directors at July 29, 1972 and September 8, 1971 were comprised of the following amounts:

<u>Advances from —</u>	<u>1972</u>	<u>1971</u>
D. Gordon Badger	\$ 67,089	\$ 60,160
Richard L. Smitten	26,407	—
Thomas A. Spencer	20,977	61
M. David Kassirer	—	1,500
Richard S. Summerfeldt	<u>76,022</u>	<u>213,542</u>
	<u>\$190,495</u>	<u>\$275,263</u>
<u>Advances to —</u>		
Paul P. Schelck	<u>\$ —</u>	<u>\$ 11,857</u>

Note 3.2: In December 1972, the above directors subscribed for shares of the company in settlement of their advances at 90% of market value of approximately 70c per share. The shares issued pursuant to these subscriptions were:

	<u>Shares</u>	<u>Consider- ation</u>
D. Gordon Badger	71,400	\$ 50,000
Richard L. Smitten	36,400	25,500
Thomas A. Spencer	25,000	17,500
Richard S. Summerfeldt	<u>35,700</u>	<u>25,000</u>
	<u>168,500</u>	<u>\$118,000</u>

Note 3.3: On August 28, 1972 the loan payable of \$36,000 was converted to a first floating charge debenture of the same principal amount bearing interest at 8% per annum due in equal instalments on August 15, 1973 and 1974. The debenture security is subordinated to any bank indebtedness of the company.

Minority Interest in Preference Shares

Note 4: Subsequent to July 29, 1972 the minority interest in the preference shares of Modern Technical Services Limited were purchased at par by M.T.S. International Services Incorporated for \$12,500 cash and 157,300 shares of the company.

**M.T.S. INTERNATIONAL SERVICES INCORPORATED
AND ITS SUBSIDIARY COMPANIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)**

Share Capital Issued During the Period

Note 5: The following shares were issued and/or allotted during the period:

<u>Transaction</u>	<u>Shares</u>	<u>Consideration</u>
Pursuant to the amalgamation agreement (Note 1.2 and 1.3)	1,179,551	\$ 2
Purchase of R.L. Smitten & Associates (A proprietorship)	5,000	11,250
Acquisition of remaining 49% interest in a subsidiary — Dynaploy Limited	1,000	2,900
Employees' bonuses	1,700	3,825
Cash subscriptions:		
Directors in settlement of loans payable	260,000	195,000
Other cash subscriptions	115,000	88,000
During the year \$100,000 was borrowed by a debenture which was subsequently purchased for cancellation in return for the issuance of shares	125,000	100,000
	<u>1,687,251</u>	<u>\$400,977</u>

Transactions Subsequent to the Balance Sheet Date

Note 6.1: During the year, Holdex Group Limited subscribed for 133,333 common shares of the company at 75c and a debenture in the principal amount of \$150,000 maturing in four equal annual instalments commencing August 31, 1973 along with 120,000 rights to purchase shares of the company at \$1.25 per share of which 30,000 rights expire on each of the due dates of the debenture.

The aggregate consideration of \$250,000, under the agreements, was payable \$100,000 in cash and \$150,000 in 6% income debentures of Holdex maturing in four equal annual instalments commencing August 31, 1973. Of these amounts, \$75,000 was received prior to July 29, 1972 for which 100,000 common shares were issued and the balance of the purchase price has been received since the year end. In addition, since the year end, \$75,000 principal amount of the debentures received from Holdex have been sold for cash and the remaining debentures have been pledged to the company's bankers as collateral.

**M.T.S. INTERNATIONAL SERVICES INCORPORATED
AND ITS SUBSIDIARY COMPANIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)**

Note 6.2: The following is a summary of subsequent transactions and their effect upon issued and paid up share capital:

	<u>Shares</u>	<u>Shareholders' Equity Capital</u>	<u>Surplus</u>
Conversion of minority interest as explained in Note 4	157,300	\$110,000	\$ —
Directors conversion of long term debt as explained in Note 3.2	168,500	118,000	—
Share subscription as explained in Note 6.1	33,333	25,000	—
Sale of all interest in the Marcom group of companies as explained in Note 2.1	—	—	453,799
Shares issued in settlement of a creditors account	15,000	15,000	—
Shares issued for cash to employees	20,000	15,000	—
	<u>\$394,133</u>	<u>\$283,000</u>	<u>\$453,799</u>

Interest and Depreciation Expense and Officers' and Directors' Remuneration

Note 7.1: General and administrative expenses include the following items:

Interest on debt initially incurred for a period of more than one year	<u>\$ 6,214</u>
Bank charges and interest on short term financing	<u>\$ 43,517</u>
Depreciation and amortization of lease-hold improvements	<u>\$ 20,755</u>

Note 7.2: The aggregate direct remuneration of the directors and senior officers of the company as defined by the Business Corporations Act (Ontario) amounted to \$366,957. Included in this amount are severance allowances to officers of the company totalling \$108,284.

Outstanding Litigation and Other Contingencies

Note 8.1: An action has been brought by a client of Modern Technical Services Limited against that company based on damages arising from services performed by the company during 1969 and 1970.

At present the Plaintiff has served the writ but not the statement of claim. Accordingly, it is not possible to state the amount of the claim nor is it possible, in the opinion of counsel, to give an estimate of the likelihood of Modern Technical Services Limited being found liable.

No provision has been made in the accounts since management, in consultation with counsel, believes that any actual liability under the claim will be nominal

**M.T.S. INTERNATIONAL SERVICES INCORPORATED
AND ITS SUBSIDIARY COMPANIES**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONTINUED)**

Note 8.2: The audit reports of the company's German subsidiaries have been qualified in respect to contingent liabilities for income taxes and withholding taxes. These contingent liabilities arise from possible disallowances of management fees, for income tax purposes, and for withholding taxes should taxing authorities take the position that income taxes should have been withheld from the individuals paid as self-employed consultants by an affiliated foreign recruiting company. The subsidiaries' auditors were unable to estimate the tax risks involved. No provision has been made in the accounts as management feels that the intercompany management fees can be fully substantiated by related overhead expenses and that the subsidiaries have been following the procedures outlined, with regard to withholding taxes, in accordance with a written opinion furnished to the company by the German tax authorities in 1970.

Note 8.3: Prior to amalgamation a former subsidiary, Commonwealth Technical Services Limited, was sold. Subsequent to the sale, Commonwealth Technical Services has gone into receivership. In the interest of maintaining its goodwill in the United Kingdom the company has offered to settle certain creditors' accounts to the extent of approximately \$25,000 and a provision of this amount has been made in the consolidated accounts. In the opinion of management, the company is not laible for the debts of Commonwealth Technical Services and no further provision has been made.

Regional Breakdown of Operating Results

Note 9:

	Revenue From Services	Operating Loss From Continuing Operations (Income)
North America	\$2,570,155	\$ 38,414
Republic of West Germany	944,822	10,150
Republic of South Africa	891,385	(1,417)
United Kingdom (unaudited)	241,903	237
France	124,473	(8,958)
Belgium (unaudited)	84,267	3,923
Head Office overhead	—	302,608
	<u>\$4,857,005</u>	<u>\$344,957</u>

Operating Costs	No
<i>Bigger Overheads</i>	<i>Sick Time</i>
<i>Non-Productive Time</i>	<i>Idle Time</i>
<i>Union Problems</i>	<i>Termination</i>
<i>Equipment Expense</i>	<i>Advertising</i>
<i>Factory Expense</i>	<i>Layoffs</i>
<i>Head Office Charge</i>	
	Operating Costs
Fixed Overhead Costs	Fixed Overhead Costs
Wages	Wages

Typical Industry Cost MTS Lower Costs

MTS

Is Economical

MTS Supplies

Social Security, Pension Plan, Vacation Pay, Hospitalization, Sick Pay, Statutory Holidays, Insurance, Advertising, Workmens Compensation, Recruiting and Time Sheets.



Client Receives

Qualified Man

Plus:

One weekly invoice (Based on actual weekly time sheet which has been countersigned and authorized by client).

Client Pays

One fixed charge based on hours worked.

The MTS International Offices

MTS International Services Inc.,
Suite 500,
170 University Avenue,
Toronto, Ontario
Phone 863-0129
Telex 06-23237

Modern Technical Services Ltd.,
Suite 501,
170 University Avenue,
Toronto, Ontario
Phone 363-3793
Telex 06-23237

Modern Technical Services
(Quebec Division) Ltd.,
Suite 547,
1 Westmount Square,
Montreal 216, Quebec
Phone 931-2541

Design Team Leasing Inc.,
130 Allens Creek Road,
Suite 203,
Rochester, N.Y. 14618
U.S.A.,
Phone 461-2060

Design Team Leasing (Ontario) Ltd.,
185 Bloor St. East,
Toronto, Ontario
Phone 924-0981

Modern Technical Services (U.K.) Ltd.,
65 Maygrove Road,
London, N.W.6, England
Phone 328-2712
Telex 51-23887

MTS Services France, S.A.,
32 Laugier,
75 Paris 17e, France
Phone 622 01 01

MTS Services, S.A.,
4 Boulevard St. Lazare Bldg.,
St. Lazare,
Bruxelles 1030,
Belgium
Phone 184867
Telex 46-23509

Modern Technical Services, GmbH.,
8 Munchen 83,
Ottobrunnerstrasse 6-8,
W. Germany
Phone 404-006-8
Telex 41-524515

Modern Technical Services
(South Africa) (Pty) Ltd.,
Trust Bank Centre,
Eloff & Main Streets,
P.O. Box 9268,
Johannesburg,
South Africa
Phone 21-1141
Telex 95-436009

Dynaploy Limited,
3 Charles Street, West,
Toronto 189,
Ontario
Phone 964-9020